

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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**NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Redmond was incorporated on December 31, 1912 and operates under the laws of the State of Washington applicable to a Non-Charter Mayor/Council form of government. The City Council is composed of seven members elected at large to four-year terms. The city provides what are considered general government services including public safety, highways and streets, parks and recreation, planning and zoning, permits and inspection, sanitation, general administrative, and water and wastewater services.

The accounting and reporting policies of the City of Redmond, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office, Division of Municipal Corporations.

The city's Comprehensive Annual Financial Report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statements 34, 36, 37, and 38. In 2003, the city implemented GASB Statement 40, Deposit and Investment Risk Disclosures issued in March, 2003.

The City's significant accounting policies are described in the following notes.

Reporting Entity

The city's Comprehensive Annual Financial Report (CAFR) includes all funds, agencies and boards controlled by or dependent on the city. Control by or dependence on the city was determined on the basis of financial accountability, budget adoption, taxing authority, outstanding debt service secured by revenues or general obligations of the city, obligations of the city to finance any deficits that may occur, or receipt of significant subsidies from the city. Accordingly, the Redmond Public Corporation is included in the accompanying financial statements (see Note 14).

Basic Financial Statements

The city's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Under the modified accrual basis of accounting, property taxes, sales taxes, utility taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 1. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the city is entitled to receive it according to the grant agreement. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Financial Statement Presentation

The city reports the following major governmental funds:

The **General Fund** is the general operating fund of the city. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

The **Local Improvement District Control Fund** is a debt service fund that accounts for resources accumulated and payments made for principal and interest on long-term special assessment debt.

The **Capital Improvements Program Fund** accounts for financial resources to be used for the acquisition, construction, and preservation of major capital facilities other than those financed by proprietary funds.

The city reports the following major proprietary funds:

The **Water/Wastewater Fund** accounts for the activities of providing water and sewer services to its citizens.

The **UPD Water/Wastewater Fund** accounts for the activities of providing water and sewer services to an urban planned development outside the city limits. Both of these utilities' operations are self-supported through user charges.

The **Stormwater Management Fund** accounts for the operation, construction, and maintenance of the city's stormwater management system. The utility's operations are self-supported through fees.

Additionally the city reports the following fund types:

Internal service funds account for fleet maintenance, information technology, and insurance services provided to other departments of the city on a cost reimbursement basis.

Agency funds account for assets held by the city as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The city has three Agency Funds, Intergovernmental Custodial, Municipal Employees Benefit Trust, and Contractor's Deposits.

The **Pension Trust Fund** accounts for the activities of the **Firemen's Pension Fund**, which accumulates resources for excess pension benefit payments to qualified firefighters.

The city applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure. Governments have the option of following subsequent private-sector guidance for their business-type and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds

for fleet maintenance and information technology. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's utility funds and internal service funds are charges to customers for sales and services, vehicle replacement, and insurance. The city also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The City of Redmond budgets its funds in accordance with the Revised Code of Washington (RCW) 35A.34. In compliance with the code, budgets for all funds are established with the exception of the LID Control and the LID Guaranty Debt Service Funds, and Fiduciary funds. Budgets established for proprietary funds are "management budgets" and as such are not required to be reported in the CAFR.

The biennial budget is proposed by the Mayor and adopted by the City Council with legal budgetary control

at the fund level, i.e. expenditures and other financing uses may not exceed budgeted appropriations at the fund level. The Mayor may authorize transfers within funds, however, the City Council must approve by ordinance any additional appropriations which increase the total for the fund without transfers from other funds. Any unexpended appropriation balances lapse at the end of the biennium.

In addition to authorizing the budget, the City Council biennially approves the Capital Improvement Program. This is a six year plan for capital project expenditures and anticipated revenue sources. Expenditures and revenues for these projects are budgeted in the Capital Projects Funds.

The city prepares biennial budgets on the modified accrual basis which conforms to generally accepted accounting principles. The CAFR includes budgetary comparisons for the general, special revenue, and debt service governmental funds with legally adopted budgets.

The budget process and the time limits under which a budget must be developed are established by State law. The city follows the procedures outlined below in the year preceding the first year of the two year budget to establish its biennial budget:

- In spring, the Mayor meets with department heads to prepare for the upcoming budget process. The Mayor develops and submits a budget calendar to the City Council for approval.
- Throughout the summer, city staff review revenue and expenditure estimates.
- In October, preliminary budget estimates are made available to the public.
- Sixty days before the ensuing fiscal year, the Mayor files the preliminary budget with the City Clerk's office.
- During the first two weeks of November, the Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- The City Council holds a series of study sessions to review the preliminary budget to determine if they wish to make any modifications to the Mayor's recommended programs.
- Public hearings are held prior to the adoption of the budget for the public to

comment on recommended programs and to offer ideas for new programs.

- Prior to the beginning of the first calendar year of the biennial budget, the City Council, by a majority of the members present, adopts a final operating budget by ordinance.
- The Final Budget document is printed and distributed after adoption.

Assets, Liabilities, and Net Assets Or Equity

Cash and investments

It is the city's policy to invest all temporary cash surpluses. These investments are reported on the statement of net assets and the governmental funds balance sheet as cash and cash equivalents or investments. Included in cash and cash equivalents are currency on hand, demand deposits with banks or other financial institutions, investments with the Local Government Investment Pool, investments in U.S. Government Mutual Funds and investments with original maturities of three months or less. Interest is allocated to each fund on the basis of investments owned.

In accordance with city policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, bankers' acceptances, bonds of Washington state and any local government in Washington state which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency, repurchase agreements, the State Investment Pool (2a7-like), and mutual funds used specifically for debt issues related to arbitrage.

The city reports its deposit and investment risk disclosures in accordance with GASB 40 (see Note 4).

In accordance with GASB 31, investments in external 2a7-like pools, money market investments, and participating interest-earning investment contracts with remaining maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

Receivables

The City of Redmond recognizes receivables in its financial statements based on the accounting requirements for that statement. These receivables are as follows:

Property Taxes

Uncollected property taxes levied for the current year are reported as receivable at year-end. The city's property tax collections records show that approximately 99% of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected, therefore no allowance for uncollectible taxes is recorded.

Sales Taxes

Sales taxes collected for November and December but not remitted by the state to the city until January and February of the following year are reported as receivables at year end. There is no allowance for uncollectible sales taxes because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the state.

Investment Interest

Interest receivable consists of interest earned on investments at the end of the year, accrued interest on investments purchased between interest dates, and accrued interest and penalties on special assessments receivable. In proprietary funds and the government-wide statement of net assets investment interest is recorded as receivable, regardless of its payment date. In the governmental fund statements and schedules investment interest is recorded as receivable if it will be paid to the city within 60 days of year end.

Special Assessments

Special assessments are levied against certain property owners and become liens against the property benefited by the improvement. Special assessments receivable in the governmental fund statements consist of current assessments which are due within 60 days, delinquent assessments remaining unpaid after the due date, and deferred, uncollected assessments which have been levied, but are not due within 60 days. Special assessments receivable in the statement

of net assets include all uncollected assessments regardless of due date.

Accounts Receivable

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided. Uncollectible amounts are considered immaterial and the direct write-off method is used.

Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds: (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Inventories

Inventories are defined as assets which may be held for internal consumption or for resale. The City of Redmond uses the following policies in valuing and recording inventory items:

In proprietary funds a perpetual inventory is maintained, in which the cost is capitalized when inventory items are purchased, and expensed when the item is consumed. The first-in, first-out valuation method, which approximates market, is used to value the inventory. A physical inventory is taken at year-end. No inventory is maintained in governmental funds.

Restricted Assets

Restricted assets include those monies reserved for customer’s deposits.

Deferred Charges

Deferred charges in the Water/Wastewater Fund are amortized under guidance provided by FASB 71 and consist of a water rate comprehensive plan, a sewer comprehensive plan, and a Rosehill sewer study which will be amortized and charged to expense over a five year period; and the Tolt Pipeline project with the City of Seattle which will be amortized over a period of twenty years.

Deferred charges in the governmental activities consist of issuance costs for the 1992 and 1994 GO bond refundings amortized over a fourteen year period and a twenty year period, respectively.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds. Capital assets are defined by the city as land and buildings with an original cost of \$50,000 or more each, machinery, equipment, software and other improvements with an original cost of \$10,000 or more each and an estimated useful life of more than one year; and all vehicles, artwork, transportation and utility infrastructure, regardless of their initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land, construction in progress, and works of art are not depreciated. Property, plant, and equipment of the city is depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings/Building Improvements	50
Other improvements	15-50
Vehicles	3-15
Machinery and equipment	6-20
Utility infrastructure	10-100
Streets, paths, trails	50
Street lights and traffic signals	30

Compensated Absences

It is the city's policy to permit employees to accumulate earned but unused vacation, compensatory time in lieu of overtime, and sick leave benefits. Twenty-five percent of unused sick leave is payable at retirement or death. Any outstanding sick leave is lost at resignation therefore, outstanding sick leave at year end is not accrued because the payment cannot be deemed probable nor can the amount be reasonably estimated. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and

amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The city's self-insured Workmen's Compensation Fund ended 2003 with negative net assets of \$29,465. The city chose to charge rates to the various city departments to fund the Workmen's Compensation Fund based on rates set by the Washington State Department of Labor and Industries. The 2003 rates set by the state were insufficient to cover the 2003 claims and fund incurred

but not reported (IBNR) claims. The rates have been increased for 2004 to a level expected to result in positive net assets by year end 2004. State law allows the negative net assets to be recovered from other city funds over a reasonable future period of time.

NOTE 3:
RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of aggregated differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between total fund balance and total net assets as reported in the government-wide statement of net assets. The details of the aggregated differences are presented below.

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Unearned special assessment revenue due beyond the city's 60 day measurable and available period	\$ 1,327,291
Investment interest accrued beyond the city's 60 day measurable and available period	252,490
Deferred charge for bond issue costs	<u>25,474</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 1,605,255</u>

Some liabilities, including bonds, loans and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

G.O Bonds payable	\$ (10,933,472)
Less: Issuance discounts	72,425
Special assessment bonds payable	(1,745,000)
Loans payable	(3,353,926)
Contract payable	(777,951)
Accrued interest payable	(211,519)
Compensated absences	(2,665,310)
Due to business-type activities	<u>(381,094)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (19,995,847)</u>

Explanation of aggregated differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of

governmental activities as reported in the government-wide statement of activities. The details of the aggregated differences are presented below.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Other government asset contributions	\$ 571,150
Developer asset contributions	1,198,901
Change in unearned special assessment revenue	(423,656)
Change in investment interest receivable due beyond the city's 60 day measurable and available period	(280,690)
Gain on capital asset disposal	22,231
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets - governmental activities	<u>\$ 1,087,936</u>

Receipt of long-term debt proceeds increases the current financial resources of governmental funds and repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets:

General obligation bond proceeds	\$ (3,698,472)
General obligation bonds repayment	2,400,000
LID bonds repayment	740,000
Public Works Trust Fund loans repayment	371,717
Contract Payable repayment	238,467
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets of governmental activities	<u>\$ 51,712</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in accrued interest payable	\$ (20,441)
Amortization of debt issue costs	(5,294)
Amortization of debt discount	(21,914)
Change in compensated absences payable	(619,376)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental funds	<u>\$ (667,025)</u>

NOTE 4: CASH AND INVESTMENTS

The City of Redmond's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$100,000 of the city's deposits. The deposit balances over \$100,000 are insured by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

As of December 31, 2003 the carrying amount of the city's cash demand deposits with Bank of America was \$1,627,377 and the bank balance was \$1,618,859. The carrying amount and bank balance of the city's cash demand deposits at U.S. Bank at December 31, 2003 was \$145,800. \$758,811 retained from contractors pending acceptance of city construction projects was held in escrow or savings accounts at various banks. Petty cash

totaled \$23,500 of which \$23,440 was allocated to various city offices and \$60 was unallocated and remains in the city's demand deposit account at Bank of America. \$10,000 is held by the City of Bellevue for use by the Eastside Narcotics Task Force. The city held \$42,637,869 in certificates of deposit at various banks.

The Local Government Investment Pool (LGIP) is a 2a7-like pool. The fair value of the city's pool investments is determined by the pool's share price. The city has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official.

As of December 31, 2003, the city had the following investments and maturities:

Investment Type	Investment Maturities (In Years)		
	Fair Value	Less Than 1	1 to 5
Federal Home Loan Bank	\$ 22,109,710	\$ 6,605,485	\$ 15,504,225
Federal Farm Credit Bank	3,030,370	1,019,430	2,010,940
Federal National Mortgage Association	21,458,261	1,874,161	19,584,100
Student Loan Marketing Association	2,020,000	2,020,000	-
Federal Home Loan Mortgage Corporation	8,064,280	2,032,270	6,032,010
State Investment Pool	5,899,790	5,899,790	-
Mutual Bond Fund	900,820	900,820	-
Total	<u>\$ 63,483,231</u>	<u>\$ 20,351,956</u>	<u>\$ 43,131,275</u>

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the city diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The city coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date.

Credit Risk. State law and city policy limit investments to those authorized by state statute including commercial paper and bonds of the State of Washington and any local

government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency. The city further limits its holdings in commercial paper to 10% of the portfolio and 10% per issuer, and local government bonds to 25% of the portfolio and 10% of issuer. At December 31, 2003 the city held no investments in commercial paper or local government bonds.

Additionally, the city restricts its investment in mutual fund bonds to be used for arbitrage purposes only.

Credit Quality Distribution for Securities
With Credit Exposure as a Percentage of Total Investments
(total investments include certificates of deposit, not represented in this table)

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
Federal Home Loan Bank	AAA	21%
Federal Farm Credit Bank	AAA	3%
Federal National Mortgage Association	AAA	20%
Student Loan Marketing Association	AAA	2%
Federal Home Loan Mortgage Corporation	AAA	8%
Mutual Bond Fund	AAAm	1%
State Investment Pool	Not Rated	6%

Concentration of Credit Risk. The city diversifies its investments by security type and institution. 100% of the city's portfolio may be invested in US Treasury Notes, Bonds or Certificates, US Government Sponsored Corporations, or the State Investment Pool. 50% of the portfolio may be invested in Certificates of Deposit with no more than 10% held by any one issuer and not exceeding 20% of the issuer's net worth. 25% of the portfolio may be invested in Bankers Acceptances (10% per issuer), State of Washington or Local Government

Bonds (10% per issuer), and Repurchase Agreements (25% per dealer). 10% of the portfolio may be invested in Commercial Paper and other authorized investments. On December 31, 2003 more than five percent of the city's investments were in the Federal Home Loan Bank, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

**NOTE 5:
RECEIVABLES**

Property Taxes

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed on a daily basis.

	<u>Property Tax Calendar</u>
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized when cash is received. At year-end, property tax revenues are recognized for December collections to be distributed by the county treasurer in January.

Under Washington State law a city may levy property taxes up to \$3.60 per \$1,000 of assessed valuation.

Redmond's maximum property tax levy rate has been reduced from \$3.60 to \$3.10, or \$.50, as a result of annexing to the King County Library District in May 1990. In addition to the limitation previously noted, the City's levy rate is also subject to the following:

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to one percent per year, after adjustments for new construction and annexations unless an increase greater than this limit is approved by the voters. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

Accordingly, the City levied \$1.28815 per \$1,000 of assessed value for general governmental services, and an additional \$0.27876 per \$1,000 of assessed value for voter approved excess tax levy, for a combined total of \$1.566910 per \$1,000 of assessed value.

**NOTE 6:
INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund receivables and payables as of December 31, 2003 is as follows:

	<u>Due to</u>	<u>Due From</u>
General Fund	\$ 1,214,032	-
Advanced Life Support Fund	-	\$ 1,214,032

**NOTE 7:
CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2003 was as follows:

Primary Government

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 39,416,160	\$ 1,856,882	\$ -	\$ 41,273,042
Construction In Progress	11,565,032	21,133,555	(7,094,430)	25,604,157
Art	198,255	12,000	-	210,255
Total Capital Assets, Not Being Depreciated	<u>51,179,447</u>	<u>23,002,437</u>	<u>(7,094,430)</u>	<u>67,087,454</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	26,145,333	450,448	-	26,595,781
Improvements Other than Buildings	6,605,318	3,629,196	(215,748)	10,018,766
Machinery and Equipment	15,504,527	2,361,247	(869,817)	16,995,957
Infrastructure	119,651,104	2,392,763	-	122,043,867
Total Capital Assets, Being Depreciated	<u>167,906,282</u>	<u>8,833,654</u>	<u>(1,085,565)</u>	<u>175,654,371</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	5,457,764	638,781	-	6,096,545
Improvements Other Than Buildings	2,545,768	417,668	(179,790)	2,783,646
Machinery and Equipment	7,434,835	1,921,997	(824,177)	8,532,655
Infrastructure	40,677,410	2,670,178	-	43,347,588
Total Accumulated Depreciation	<u>56,115,777</u>	<u>5,648,624</u>	<u>(1,003,967)</u>	<u>60,760,434</u>
Total Capital Assets, Being Depreciated, Net	<u>111,790,505</u>	<u>3,185,030</u>	<u>(81,598)</u>	<u>114,893,937</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 162,969,952</u>	<u>\$ 26,187,467</u>	<u>\$ (7,176,028)</u>	<u>\$ 181,981,391</u>

CITY OF REDMOND

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 4,970,966	\$ 134,631	\$ -	\$ 5,105,597
Construction In Progress	5,880,408	6,565,860	(7,414,700)	5,031,568
Total Capital Assets, Not Being Depreciated	<u>10,851,374</u>	<u>6,700,491</u>	<u>(7,414,700)</u>	<u>10,137,165</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	14,075,450	1,183,743	-	15,259,193
Improvements Other Than Buildings	138,395,832	14,821,509	(386,722)	152,830,619
Machinery and Equipment	622,912	10,972	-	633,884
Total Capital Assets, Being Depreciated	<u>153,094,194</u>	<u>16,016,224</u>	<u>(386,722)</u>	<u>168,723,696</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	682,119	295,722	-	977,841
Improvements Other Than Buildings	24,467,413	3,012,758	(256,159)	27,224,012
Machinery and Equipment	151,403	60,127	-	211,530
Total Accumulated Depreciation	<u>25,300,935</u>	<u>3,368,607</u>	<u>(256,159)</u>	<u>28,413,383</u>
Total Capital Assets, Being Depreciated, Net	<u>127,793,259</u>	<u>12,647,617</u>	<u>(130,563)</u>	<u>140,310,313</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 138,644,633</u>	<u>\$ 19,348,108</u>	<u>\$ (7,545,263)</u>	<u>\$ 150,447,478</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government	\$ 357,041
Security	1,055,484
Physical Environment	7,183
Transportation, Including Depreciation of General Infrastructure Assets	2,770,459
Economic Environment	16,600
Culture and Recreation	411,809
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on Their Usage of the Assets	<u>946,198</u>
Total Depreciation Expense – Governmental Activities	\$ 5,564,774
Accumulated Depreciation to Date – Donated Vehicles	<u>83,850</u>
Total Increase in Accumulated Depreciation – Governmental Activities	<u>\$ 5,648,624</u>
Business-type Activities:	
Water/Wastewater	\$ 2,035,494
UPD Water/Wastewater	766,360
Stormwater	<u>566,753</u>
Total Depreciation Expense – Business-type Activities	<u>\$ 3,368,607</u>

NOTE 8: PENSION PLANS

In accordance with GASB Statement No. 27, the following pension plan information is provided. All City full-time employees and part-time employees meeting required eligibility hours participate in the following one of two statewide local government retirement systems administered by the Washington State Department of Retirement Systems. Employees of both plans must work a minimum of 70 hours per month. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

The Department of Retirement Systems issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for each plan. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia WA 98504-8380

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

The State Legislature established PERS in 1947 under Chapter 41.40 of the Revised Code of Washington (RCW).

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the

system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 participants are eligible to retire at age 55 with 25 years of service, age 60 with 5 years of service, or at any age with 30 years of service. The total annual pension benefit is 2% of the average final compensation times the number of years of service, based on the highest two-year period. Benefits may be paid to the participant for their lifetime or a reduced benefit may be paid to the participant with their surviving beneficiary receiving the same reduced benefit for the beneficiary's lifetime. Retirement benefits may not exceed 60% of final average compensation. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3% annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 participants are eligible to retire at age 65 with 5 years of service or at age 55 with 20 years of service, receiving a reduced benefit. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The total annual pension benefit is 2% of the average final compensation times the number of years of service, based on the highest consecutive five-year period. Average final compensation does not include severance pay such as lump sum deferred sick pay or vacation pay. Retirement benefits may not exceed 100% of final average compensation. Retirement benefits are indexed to the Seattle consumer price index with a maximum of 3% increase annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and

employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and 7.5% for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

There are 1,167 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	63,756
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	19,152
Active Plan Members Vested	98,994
Active Plan Members Nonvested	55,191
Total	237,093

Law Enforcement Officers and Fire Fighters (LEOFF) Plans 1 and 2

LEOFF was established in 1970 by the Legislature under Chapter 41.26 RCW.

The LEOFF system is a contributory multi-employer cost sharing retirement system administered by the State of Washington through the Department of Retirement Systems. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. Retirement benefits are financed by employee and employer contributions, investment earnings, and legislative appropriations. LEOFF is comprised solely of nonstate employees. Effective January 1, 2003 firefighter

emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county, or district, the EMTs job was relocated to a fire department from another city, town, county, or district.

For Plan 1 participants the total annual pension benefit varies from 1% (five to ten years service) to 2% (twenty years or more of service) of final average salary. For members hired after February 18, 1974, the service retirement may not exceed 60% of final average salary. Members who terminated service with five or more years of credited service may, instead of withdrawing their contributions, be eligible to receive a service retirement allowance beginning the day following their 50th

birthday. The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest 24 months' salary within the last 10 years of service. A cost of living allowance is granted, capped at 3% annually. Substantial disability and death benefits are provided by the plan.

Plan 2 participants are eligible to retire at the age of 50 with 20 years of service or at 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced 3 percent for each year before the benefit commences prior to age 53. The benefit is 2% of average salary per year of service. The average salary is based on the highest five-year period. A cost of living allowance is granted, capped at 3% annually. Death and disability benefits are also provided.

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

There are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans as of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	8,231
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	398
Active Plan Members Vested	11,222
Active Plan Members Nonvested	3,936
Total	23,787

PERS and LEOFF Plan Information

	PERS			LEOFF	
	PLAN 1	PLAN 2	PLAN 3	PLAN 1	PLAN 2
Employee contribution rate as a percentage of covered payroll as of December 31, 2003	6.00%	1.18%	**	-	5.05%
Employer contribution rate as a percentage of covered payroll as of December 31, 2003:*	1.40%	1.40%	1.40%***	.22%	3.25%
State of Washington contribution rates as of December 31, 2003	-	-	-	-	2.02%

* Includes Administrative cost rate.

** Variable from 5.0% minimum to 15.0% maximum based on rate selected by PERS 3 member.

***Plan 3 defined benefit portion only.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31, were:

	<u>PERS 1</u>	<u>PERS 2</u>	<u>PERS 3</u>	<u>LEOFF 1</u>	<u>LEOFF 2</u>
2003	\$ 35,051	\$244,908	\$ 35,368	\$ 1,747	\$ 398,691
2002	\$ 35,760	\$266,674	\$ 797	\$ 1,857	\$ 310,065
2001	\$ 77,294	\$554,776	-	\$ 22,410	\$ 385,400

Firemen's Pension Plan

The City is the administrator of the Firemen's Pension Plan (FPP), a closed, single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) 41.18. The costs of administering the Plan are paid from the Firemen's Pension Fund. The Plan provided retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the FPP for covered firefighters who retire after March 1, 1970. Benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan. Membership in the FPP consists of one deceased and four retired firefighters, one of whom is currently receiving benefits.

The benefits provided by the Plan are potentially in excess of the State's LEOFF plan. For funding purposes and accruing costs, the benefits are measured by a modified aggregate projected benefit method, with the annual cost spread over the period ending December 31, 2010. Under this method, the required contribution is the portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. This cost method is not appropriate for GASB Statements 25 and 27 purposes though it is still recommended for funding purposes. For

GASB purposes, the entry age normal cost method is used. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the fund assets. The UAAL will be amortized over a closed 30 year period beginning December 31, 2000. The Plan is a closed off plan and GASB disclosures make no special provision for reporting the cost for this type of plan. Therefore, the minimum actuarial required contribution (ARC) disclosed for GASB purposes has no relationship to the City's funding policy for the Plan.

Under State law, the FPP is provided an allocation of 25% of all moneys received by the State from taxes on fire insurance premiums, interest earnings, member contributions made prior to the inception of LEOFF, and city contributions required to meet projected future pensions obligations. The actuary has determined that no city contribution is required.

The financial activity of the Firemen's Pension Fund is included in this document, the Comprehensive Annual Financial Report of the City of Redmond. No separate stand-alone financial report is issued for the Firemen's Pension Fund.

Schedule of Funding Progress

The Schedule of Funding Progress is included in the Required Supplementary Information section at the end of the Notes to the Financial Statements.

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
December 31, 2000	\$ 41,581	\$ 30,148	137.9%
December 31, 2001	\$ 48,217	\$ 30,148	159.9%
December 31, 2002	\$ 51,484	\$ 15,456	333.1%
December 31, 2003	\$ 59,483	\$ 15,456	384.9%

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
December 31, 2001	\$ 30,218	159.6%	\$ (29,432)
December 31, 2002	\$ 15,662	328.7%	\$ (65,254)
December 31, 2003	\$ 15,976	372.3%	\$ (108,761)

The information presented in the preceding required schedules was determined as part of the actuarial valuations as indicated.

Valuation date:	January 1, 2002
Actuarial cost method for GASB purposes:	Entry Age Normal Cost Method
Amortization method:	Level Percentage of Projected Payroll Closed
Remaining amortization period:	28 years
Asset valuation method:	Market Value

Actuarial Assumptions:

Investment rate of return	7%
Projected salary increases	5%
Cost of living adjustments	4%

Annual Pension Cost and Net Pension Obligation

	Year Ending 12/31/02	Year Ending 12/31/03
	<u> </u>	<u> </u>
1. Annual Normal Cost, beginning of year	\$ -	\$ -
2. Amortization of UAL, beginning of year	14,445	14,445
3. Interest to end of year	<u>1,011</u>	<u>1,011</u>
4. Annual required contribution at end of year (1 + 2 + 3)	\$ 15,456	\$ 15,456
5. Interest on net pension obligation	\$ (2,060)	\$ (4,568)
6. Adjustment to annual required contribution	<u>(2,226)</u>	<u>5,088</u>
7. Annual pension cost (4 + 5 - 6)	\$ 15,662	\$ 15,976
8. Employer Contributions	<u>\$ 51,484</u>	<u>\$ 59,483</u>
9. Change in net pension obligation (7 - 8)	\$ (35,822)	\$ (43,507)
10. Net pension obligation at beginning of year	<u>\$ (29,432)</u>	<u>\$ (62,254)</u>
11. Net pension obligation at end of year (9 + 10)	<u><u>\$ (65,254)</u></u>	<u><u>\$ (108,761)</u></u>

Municipal Employees Benefit Trust

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418 (g) effective January 1, 1975. Permanent employees working 1040 or more hours per year are eligible but not required to participate in the plan. Temporary employees working less than 1040 hours per year are required to participate in the plan. Participating permanent employees may choose to defer income tax in accordance with Internal Revenue Code Section 401K, on all, part or none of their contribution while temporary employees may not defer income tax on any of their contribution. There were 566 permanent and 246 temporary participants with account balances at December 31, 2003.

The Municipal Employees Benefit Trust Plan is a defined contribution plan with participants contributing an amount equal to the current Social Security rate (7.65%). One hundred percent of the contributions made by employees hired before April 1, 1986 go to MEBT. Employees hired on or after April 1, 1986 contribute 6.2% to MEBT and 1.45% to Medicare. Permanent employees may make additional contributions up to the limit set by the Internal Revenue Code. The City contributes 7.65% for permanent employees and 4.75% for temporary employees. Of the City's contribution, 1.45% goes to Medicare for employees hired on or after April 1, 1986. Eighty percent of the remaining City contribution goes to MEBT and 20% to administrative fees. The City's contribution is based on the payroll for all employees who are eligible to participate in the plan, regardless of the number of participants. City payroll for participating employees in 2003 was \$36,264,644. Employee contributions were \$3,306,434. City contributions were \$2,816,535. The City's total payroll was \$37,986,125.

Plan assets consisting of stocks, bonds, and guaranteed insurance contracts, are not the property of the City and are not subject to the claims of the City's general creditors. The Plan is administered by the Plan Committee consisting of seven employee members appointed by the city. The Plan Committee administers the MEBT Plan according to the Plan Document adopted by the city and all applicable IRS regulations. Plan provisions may be established or amended by a majority vote of the Plan Committee. Employees who elect not to participate in the Municipal Employees Benefit Trust plan retain the disability and survivor income insurance provided by the Standard Insurance Company.

Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided by a group insurance policy with Standard Insurance Company, and (2) each participant shall at his normal retirement date instruct the Plan Committee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay retirement benefits in monthly or annual installments (no contributions by the City or the participant shall be added to his account after retirement), (c) pay a single sum in cash, or (d) elect to defer any or all retirement benefits to a later date.

Other Post-employment Benefits

The only post-employment benefit provided to City employees is post-retirement health care benefits, to LEOFF I retirees (in accordance with State statutes). Currently, 23 retirees meet those eligibility requirements. The City provides medical insurance and reimburses for all validated claims for medical, dental, and hospitalization costs incurred by these retirees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$447,135 were recognized for post-retirement health care. The city will meet its future liability for extended medical care costs for these LEOFF I retirees through a combination of third party insurance and a self funded reserve.

**NOTE 9:
CONSTRUCTION COMMITMENTS**

At December 31, 2003 the City had significant contractual obligations on construction projects.

Building Projects	\$ 16,288
Parks Projects	265,893
Street Projects	7,365,159
Utilities Projects	1,534,839
	<u>\$ 9,182,179</u>

**NOTE 10:
INTERFUND TRANSFERS**

<u>FUND</u>	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ 565,430	\$ 4,933,719
LID Control Fund	43,822	-
Capital Improvements Program Fund	14,137,737	5,505,736
Non-Major Governmental Funds	3,577,672	7,820,935
Stormwater Management Fund	-	161,292
Internal service Funds	161,292	64,271
TOTAL TRANSFERS	<u>\$18,485,953</u>	<u>\$18,485,953</u>

NOTE 11: LONG-TERM OBLIGATIONS

General Obligation Bonds

General Obligation Bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service is paid from the debt service funds. Debt service for voter approved issues is funded by special property tax levies.

General Obligation Bonds outstanding at year-end are as follows:

1992 Unlimited Tax General Obligation Advance Refunding Bonds: Issued to provide funds in an irrevocable trust to refund a portion of the 1986 GO Bonds, which were issued to provide funds for a Police building, a Senior Citizen's Center and street improvements. The 1986 G.O. Bonds were paid in full in 1996.

1994 Unlimited Tax General Obligation and Refunding Bonds: Issued to provide funds for a new fire station, and to provide funds in an irrevocable trust to refund a portion of the 1990 GO Bonds and the 1985 GO Refunding Bonds. The 1985 GO Refunding Bonds were paid in full in 1995. The 1990 GO Bonds were paid in full in 2000.

2003 Limited Tax General Obligation Bonds: Two LTGO bonds were issued in 2003 to provide funds for park development and renovation. A bond in the amount of \$2,048,472 was issued to renovate tennis courts and softball fields at Grasslawn Park and carry out capital improvements in other parks. A bond in the amount of \$1,650,000 was issued to pay the costs of developing Perrigo Park.

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/03
1992 Refunding	7/1/92	12/1/05	3.0-5.75%	\$15,100,000	\$11,565,000	\$ 3,535,000
1994 GO/Refunding*	3/1/94	12/1/13	4.0-5.65%	9,310,000	5,610,000	3,700,000
2003 LTGO Bonds	6/26/03	6/1/08	3.450%	3,698,472	-	3,698,472
Total General Obligation Bonds/Notes:				<u>\$28,108,472</u>	<u>\$17,175,000</u>	<u>\$10,933,472</u>

* \$5,510,000 are refunding and \$3,800,000 are new debt.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities		
Year	Principal	Interest
2004	\$ 3,236,040	\$ 544,748
2005	3,472,554	323,792
2006	950,276	166,124
2007	973,218	129,535
2008	996,384	91,820
2009 - 2013	1,305,000	191,196
	<u>\$ 10,933,472</u>	<u>\$ 1,447,215</u>

CITY OF REDMOND

The 1992 and 1994 refunding bond issues are presented in the statement of net assets net of discounts. The gross bonds payable and discounts are as follows:

	1992 Refunding Bonds	1994 Refunding Bonds
Bonds Outstanding	\$ 3,535,000	\$ 3,700,000
Less Unamortized Bond Discount	(36,673)	(35,572)
Bonds Outstanding, Net	<u>\$ 3,498,327</u>	<u>\$ 3,664,428</u>

Special Assessment Debt with Governmental Commitment

Special Assessment Bonds are not a direct responsibility of the City, but are funded from the collection of special assessment payments. Debt service principal and interest costs are paid from the LID Control Fund. The Government is obligated for special assessment debt to the extent that it is required to establish a guaranty fund, for the purpose of guaranteeing the payment of local improvement bonds and warrants, in the event there are insufficient funds in the LID Control Fund. The Guaranty Fund is funded from interest income and surplus from the LID Control Fund, and is maintained at approximately 10% of the total original bond issue amounts. Delinquent special assessments receivable totaled \$89,453 in principal and \$57,276 in interest at the close of 2003. The fund balance in the LID Guaranty Fund stood at \$840,360.

Bonds, Issuances, Redemptions and Balances Outstanding

LID	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Bonds Outstanding 12/31/03
1995	2/15/95	2/15/07	5.25-6.8	\$1,515,830	\$1,165,830	\$ 350,000
1998	3/01/98	3/01/10	4.0-5.0	1,241,036	591,036	650,000
1999	7/15/99	7/15/11	4.1-5.5	2,355,410	1,610,410	745,000
Total Special Assessment Bonds:				<u>\$5,112,276</u>	<u>\$3,367,276</u>	<u>\$1,745,000</u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year	Governmental Activities	
	Principal	Interest
2004	\$ -	\$ 94,675
2005	-	94,675
2006	-	94,675
2007	350,000	94,675
2008	-	71,200
2009-2012	1,395,000	182,550
Total	<u>\$ 1,745,000</u>	<u>\$ 632,450</u>

Contract Payable

The city entered into an agreement with a private party to purchase a 3.15 acre parcel in southeast Redmond for park land. Payments will be made from park impact fees collected in conjunction with building permits issued by the city. The total amount due is \$1,126,658. The agreement is silent as to interest and allows for variable payments from 2003 to 2006. The city has assumed equal payments will be made in each of the four years and has calculated interest using an imputed rate of 4.25%.

Year	Governmental Activities	
	Principal	Interest
2004	\$ 248,602	\$ 33,063
2005	259,167	22,497
2006	270,181	11,483
Total	<u>\$ 777,950</u>	<u>\$ 67,043</u>

Revenue Bonds

Revenue Bonds are payable from revenues generated by the city's Water/Wastewater Fund. Water/Sewer Refunding Revenue Bonds were issued in 1993 to refund Water/Sewer Bonds issued in 1985 and 1988. The 1985 refunded bonds are paid in full. The 1988 bonds were called early and paid in full in 2003.

Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Redmond currently has nine such loans. Six loans with an outstanding principal balance of \$3,353,927 are being repaid from General Fund revenues which are transferred to the Capital Improvements Program Fund where the loan payments are recorded. Three loans with an outstanding principal balance of \$605,211 are being repaid from water and wastewater revenues.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 371,717	\$ 61,559	\$ 108,625	\$ 10,337
2005	371,717	54,849	108,625	8,381
2006	371,717	48,139	108,625	6,426
2007	371,717	41,430	108,625	4,470
2008	371,717	34,720	85,356	2,515
2009-2013	1,351,570	82,973	85,355	1,257
2014-2015	143,772	2,157	-	-
	<u>\$ 3,353,927</u>	<u>\$ 325,827</u>	<u>\$ 605,211</u>	<u>\$ 33,386</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 9,635,000	\$ 3,698,472	\$(2,400,000)	\$ 10,933,472	\$ 3,236,040
Special assessment debt with government commitment	2,485,000	-	(740,000)	1,745,000	-
Less deferred amounts:					
For issuance discounts	(94,339)	-	21,914	(72,425)	-
Total bonds payable	12,025,661	3,698,472	(3,118,086)	12,606,047	3,236,040
PWTF loans	3,725,644	-	(371,717)	3,353,927	371,717
Contract payable	1,016,417	-	(238,467)	777,950	248,602
Compensated absences	2,148,816	2,937,712	(2,308,732)	2,777,796	2,222,237
Governmental activity Long-term liabilities	<u>\$ 18,916,538</u>	<u>\$ 6,636,184</u>	<u>\$(6,037,002)</u>	<u>\$ 19,515,720</u>	<u>\$ 6,078,596</u>
Business-Type Activities:					
Bonds Payable:					
Revenue bonds	\$ 2,855,000	\$ -	\$(2,855,000)	\$ -	\$ -
Less deferred amounts:					
For issuance discounts	(32,742)	-	32,742	-	-
Loss on refunding	(204,501)	-	204,501	-	-
Total bonds payable	2,617,757	-	(2,617,757)	-	-
LID Assessment	195,593	-	(32,599)	162,994	32,599
PWTF loans	713,837	-	(108,626)	605,211	108,625
Compensated absences	260,185	311,102	(285,349)	285,938	228,750
Business-type activity Long-term liabilities	<u>\$ 3,787,372</u>	<u>\$ 311,102</u>	<u>\$(3,044,331)</u>	<u>\$ 1,054,143</u>	<u>\$ 369,974</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$112,486 of internal service funds compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid.

NOTE 12: NEW FUNDS

Two Special Revenue funds were established in 2003 to account for revenues collected for specific purposes. The Cable Access Fund monitors revenues collected from cable television subscribers and expenditures for cable access equipment, public education, service enhancement and government access to television pursuant to the city's

contract with its cable access provider. The Advanced Life Support Fund accounts for monies spent to provide advanced life support services to the East King County ALS Consortium, of which Redmond is the lead agency. Funding is provided by a King County EMS levy.

NOTE 13: CONTINGENCIES AND LITIGATION

As of December 31, 2003, there were a number of damage claims and lawsuits pending against the city. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would affect materially the financial condition of the city.

In 1996, it was discovered that during 1995 a major high-tech company in Redmond had erroneously continued to pay sales tax on new construction which had been

exempted under the state's recently enacted high-tech sales tax exemption legislation. An audit is currently underway by the Washington State Department of Revenue to determine the extent of the city's liability. Underpayments of sales tax in previous years may largely offset the 1995 overpayment. At this time the best estimate of the city's liability is in the range of \$0 to \$1,000,000. Sufficient resources have been set aside to pay the maximum liability, pending the outcome of the audit.

NOTE 14: COMPONENTS INCLUDED IN REPORTING ENTITY

The RCW 39.84.100 grants cities the authority to establish Industrial Development Corporations. In 1982, the City of Redmond created the Redmond Public Corporation. This is a public corporation whose purpose is to issue tax-exempt non recourse revenue bonds to finance industrial development within city limits. The corporation may construct and maintain industrial facilities which it then leases or sells to industrial users. Revenue bonds issued by the corporation are payable from revenues of the industrial development facility funded by the revenue bonds.

In conformity with generally accepted accounting principles, the Redmond Public Corporation has been included in the financial reporting entity. The Corporation's Board of Directors is comprised solely of members of the City Council who have the authority to approve issuance of the corporation's revenue bonds. The ability of the City Council to impose its will on the

Redmond Public Corporation through the approval or disapproval of revenue bond issuance makes the City of Redmond financially accountable for the Public Corporation.

Although the Redmond Public Corporation is included in the reporting entity as a blended component unit, no financial impact is reported in the statements. The bonds are not a liability or a contingent liability of the City of Redmond or lien on any of its properties or revenues. Principal and interest on the bonds are payable solely from the funds provided for this payment from the revenues of the industrial development facilities funded by the revenue as provided in the RCW. Records regarding the financial statements of the entities on whose balance sheets the bond liabilities are reported are in the Office of the City Attorney, who acts as the Secretary of the Public Corporation.

**NOTE 15:
JOINT VENTURE**

In February 1990, the City of Redmond joined with the City of Bellevue to construct, operate, and maintain a joint-use water storage and pumping facility located on the common boundary of the two cities. The City of Redmond has an undivided interest in the facility of 44% and the City of Bellevue has an undivided interest of 56%.

The City's share of costs to construct the joint-use facility totaled \$2,078,539 and is reported on the business-type activity financial statements as improvements other than buildings. Accumulated depreciation totals \$507,163 with a net book value of \$1,571,376. The city reimbursed the City of Bellevue \$18,770 for its share of operating costs in 2003.

**NOTE 16:
SUBSEQUENT EVENTS**

The Washington State Department of Revenue notified the city in March, 2004 of the completion of their audit of sales taxes paid by high-tech companies in Redmond through 1997. The Department of Revenue determined the city had no liability to refund prior year's sales taxes. The resources set aside pending the outcome of the audit described in Note 13 will be recognized as revenue.

On April 6, 2004 Redmond Community Properties (RCP), a Washington non-profit corporation, issued \$37.61 million of Lease Revenue Bonds on behalf of the City of Redmond in accordance with the provisions of Revenue Ruling 63-20 of the US Treasury, as amended and updated by Revenue Procedure 82-26 of the US Treasury. The bonds are secured by lease-rental payments made by the City of Redmond to the lessor, RCP. Proceeds from the bonds will be used to build a new Redmond City Hall and related parking structure.

NOTE 17: RISK MANAGEMENT

The city is exposed to various risks of loss such as: theft and damage and destruction of assets, errors and omissions, injuries or property damage to others, employees' health, and natural disasters. The city has three internal service funds to account for and finance its self-insured risks of loss. The city purchases commercial insurance for claims in excess of self-insured losses. Most funds of the city participate in the self-insurance programs and make payments to the self-insurance funds based on estimates of the amounts needed to pay excess insurance and related risk management and service costs, prior and current year claims paid in the current year, and to maintain adequate reserves for catastrophic losses in a given year.

The claims payment portion of the Insurance Claims and Reserve Fund provides coverage up to a maximum of \$100,000 per occurrence for insurance related claims and expenses. Settled claims have only exceeded \$100,000 three times in the past ten fiscal years. None of the current claims or lawsuits made or expected to be made against the city appear to have any reasonable likelihood of significantly affecting the city's financial situation for 2003. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim given the information available at the time. Cases are reviewed no less than monthly and are subject to periodic audits. Lawsuits are reviewed and handled directly by the City Attorney or the excess insurer's appointed legal counsel. Reserves are established for estimated ultimate loss costs and related loss adjustment expenses.

The Medical Self-Insurance Fund provides coverage up to a maximum of \$100,000 per person per calendar year with the excess insurance covering up to a lifetime major medical maximum of \$1,000,000. There were no claims in excess of the per person limit in 2003 and one claim in excess of the per person limit each year in 2002 and 2001. All funds of the city from which employee wages are paid make premium payments to the Medical Self-Insurance Fund based on health insurance rates derived from actual fund experience and Consumer Price Index increases.

Council authorized the city to self-insure workers' compensation benefits effective January 1, 1998 for employee injuries and illnesses. The city self-insures \$300,000 of each accident or illness and purchases excess insurance above that, up to the statutory requirements. No reported claim for 2003, 2002, or 2001 exceeded \$300,000. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2003, the city had reserves of \$161,345 in the Insurance Fund and \$856,815 in the Medical Self-Insurance Fund to provide against risk of future loss. The city had no reserves in the Workman's Compensation Fund due to insufficient rates relied on by the city that were set by the Washington State Department of Labor and Industries to cover 2003 and prior year claim payments and incurred but not reported (IBNR) expenses. The rates have been increased for 2004 to provide sufficient funds to pay claims and establish a reserve in the Workman's Compensation Fund. 2003 claims in excess of the funds available in the Workman's Compensation Fund were paid from the city's general reserves. State law allows for deficits in the internal service fund to be made up over a reasonable future period. Claims liabilities of \$604,506 have been reported in the Medical Self-Insurance Fund and \$28,050 in the Workman's Compensation Fund based on estimates provided by the city's third party administrators. Historically claims liabilities for IBNR in the Insurance Claims and Reserve Fund average 15% to 20% of paid claims for the year. At the end of 2003, there is a reasonable possibility the city is liable for insurance claims in the range of \$20,000 to \$30,000. This claims liability has not been accrued due to the uncertain outcome of the claims outstanding. Reported claims liabilities are based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

CITY OF REDMOND

Changes in the self-insurance funds' claims liabilities in 2002 and 2003 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims & Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year Liability</u>
Insurance Fund				
2002	\$ -	\$ 157,144	\$ 157,144	\$ -
2003	\$ -	\$ 144,705	\$ 144,075	\$ -
Medical Insurance Fund				
2002	\$ 410,058	\$3,618,316	\$3,493,164	\$ 535,210
2003	\$ 535,210	\$3,584,195	\$3,514,899	\$ 604,506
Workman's Compensation Fund				
2002	\$ 36,159	\$ 133,879	\$ 159,649	\$ 10,389
2003	\$ 10,389	\$ 197,792	\$ 177,194	\$ 30,987

Commercial insurance policies were purchased to protect the city from claims which exceed the coverage provided by the self-insurance funds.

	<u>Coverage</u>	<u>Self-Insured Retention</u>
Blanket building and personal property	\$20,000,000	\$100,000 except earthquake at 2% of values at risk subject to a \$100,000 minimum
Law enforcement	\$21,000,000	\$100,000
Errors and omissions liability	\$21,000,000	\$100,000 except employment-related practices liability limit is \$5,000,000
General and automobile liability coverage	\$21,000,000	\$100,000
Blanket fidelity (employee dishonesty)	\$ 1,000,000	\$ 5,000
Excess Workman's Compensation	statutory	\$300,000
Excess Medical Insurance	\$ 1,000,000	\$100,000